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FISCAL IMPACT STATEMENT

LS 6460	**NOTE PREPARED:** Jan 3, 2013
BILL NUMBER: SB 375	**BILL AMENDED:**

SUBJECT: Depreciable personal property assessment.

FIRST AUTHOR: Sen. Buck	**BILL STATUS:** As Introduced
FIRST SPONSOR:	

FUNDS AFFECTED:	**GENERAL** **DEDICATED** **FEDERAL**	**IMPACT:** Local

Summary of Legislation: This bill changes the minimum personal property tax depreciation floor from 30% to 20% for assessment dates after 2013.

Effective Date: July 1, 2013.

Explanation of State Expenditures:

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: *Summary*: The reduction of the 30% floor to a 20% floor beginning with taxes payable in CY 2015 would result in the elimination of about $8.7 B in business personal property and utility net AV. The AV reduction would cause the 2015 statewide average tax rate to rise from and estimated $2.36 to $2.42, or by an average of $0.06 per $100 AV. The higher tax rates would cause a shift of about $84 M in taxes to other taxpayers. Additionally, the higher tax rates would increase exposure to the circuit breaker caps by about $215 M. Net taxes on personal property would be reduced by about $300 M. The increased tax rates would result in an estimated $15 M increase in TIF revenue.

Rail Car Tax - Summary: If the 30% floor is reduced to 20%, rail car net AV would fall by about $88 M, and rail car taxes would decline by about $1.8 M annually. The net rail car tax after credits is billed by Indiana Department of State Revenue and paid into the Commuter Rail Service Fund. Money in the fund is distributed to the Northern Indiana Commuter Transportation District (NICTD).

Background: The current Department of Local Government Finance (DLGF) personal property assessment rule specifies a depreciation schedule for business personal property. Most taxpayers list the cost of depreciable property in one of four "pools", based on the declared useful life of the property. Each pool has a different set of depreciation rates for each year of age of the property. The cost of the property is multiplied by the appropriate "percent good" factor in the depreciation schedule to produce the true tax value (TTV). The total TTV of all of a taxpayer's depreciable property located in the same taxing district must equal at least 30% of the total cost. This is known as the 30% valuation floor.

Utilities, railroads, and rail cars are assessed under different methods. The total statewide assessed values of these taxpayers are established, subject to the 30% floor, and then are apportioned to various taxing districts.

Taxpayers who own an integrated steel mill or an oil refinery/petrochemical company may elect to use the Pool #5 depreciation schedule. Personal property taxpayers who use Pool #5 are not subject to the 30% floor. So a change to the 30% floor would not change the assessed value on these returns. However, these taxpayers could elect to return to the traditional four-pool depreciation schedule if it becomes advantageous to do so.

Analysis: There were approximately 287,600 business personal property tax returns filed for taxes payable in 2012 (not including LaPorte County). These returns account for about $35 B in gross AV and $29 B in net AV. Property was valued at the 30% floor on about 164,000, or 57% of those returns.

There were also 312 utility and railroad returns filed for taxes payable in 2012. Total utility/railroad gross AV was about $12 B and net AV was about $10 B. Property was valued at the 30% floor on 171, or 55% of these returns.

Total net property tax on business personal and utility property was $967 M in CY 2012 and is estimated at $1.02 B in CY 2015. If the 30% floor is reduced to 20%, business personal and utility net AV would be reduced by an estimated $8.7 B in CY 2015. Net taxes would be reduced by about $300 M.

Rail Car Tax - Background: The rail car property tax is imposed on the rolling stock of rail car companies. The total value of a company's rail cars is determined, and then a portion is allocated to Indiana. The state average property tax rate is applied to the Indiana value to determine the taxpayer's gross liability. Taxpayers may claim maintenance credits up to a combined total of $2.8 M for all companies in a year.

There were 1,102 rail car companies that filed returns for taxes payable in 2012. The total Indiana value was $368 M, and the net tax was $5.9 M. Property was valued at the 30% floor on 338 (31%) of those returns.

State Agencies Affected: Department of Local Government Finance; Northern Indiana Commuter Transportation District.

Local Agencies Affected: Local civil taxing units and school corporations.

Information Sources: LSA parcel-level property tax database and personal property return database; Utility return data, DLGF.

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